

30 June 2020

QL Resources Bhd

Solid FY20

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FY20 Net Profit of RM239.3m (+10%) came in within expectations, while the declared dividend of 4.5 sen missed. Meanwhile, added liquidity from the proposed 1:2 bonus issue could stretch valuations further. Downgrade to MP with revised TP of RM9.05, based on 54.0x FY21E PER. We believe the rich valuations are justified by its resiliency and rosy earnings growth expectations of c.13-10%. However, recent share price rally may have priced in the foresaid merits, limiting its near-term upside potential.

Within expectations. FY20 net profit of RM239.3m came in within expectations at 98% and 96% of our and consensus' estimates, respectively. A single interim dividend of 4.5 sen was declared (implying pay-out ratio of c.31%), below our anticipated payment of 5.5 sen.

Decent report card. YoY, FY20 net profit rose 10%, on the back of: (i) stronger PBT from Marine Product Manufacturing (MPM) segment (+25%), thanks to persistently robust demand for surimi, fishmeal and surimi-based products, as well as (ii) improved Integrated Livestock Farming (ILF) segment (PBT +8%) boosted by greater regional and Sabah poultry operations. These were slightly shadowed by a weaker Palm Oil Activities (POA) segment (PBT -59%) which was dragged by lower FFB processed and poorer forex.

QoQ, 4QFY20 net profit dropped 44% to close at RM43.0m, largely dragged by seasonally weaker MPM segment (PBT -23%), coupled with poorer contribution from ILF (PBT -56%) due to the poorer ASP. The POA segment, however, recorded a 6% increase in PBT thanks to higher CPO prices.

Resilient amid pandemic. Moving forward, the group's earnings are anticipated to be mainly anchored by its MPM segment (takes up c.57% of group PBT), on the back of: (i) stable fish cycle, (ii) persistently robust sales momentum especially from the frozen prawn and frozen surimi-based products, as well as (iii) more favourable forex exposure from its exports. We take comfort in the resiliency of the group's anchor segment, as it has been largely unaffected by the current Covid-19 outbreak. Meanwhile, the segmentation for the FamilyMart convenience store business (initially expected this quarter) has been delayed, possibly due to weaker sales during MCO. Nonetheless, the group is on track to meet its FY22 target of 300 locations, with c.197 stores opened to date. Hence, we reiterate our view that this segment will be an exciting avenue of growth, premised on its higher margin fresh food content which takes up c.80% of its sales.

Proposed bonus issue. The group also announced a proposed bonus issuance entailing the issuance of up to 811.2m bonus shares on the basis of 1 bonus share for every 2 existing QL shares. With an expected completion by 4QCY20, the bonus issue is expected to raise the number of shares to 2.43b from 1.62b shares.

Post results, we tweaked our FY21E earnings upwards by 1.2% to account for more generous sales growth for its MPM segment and better forex exposure. We also introduce our new FY22E earnings estimates.

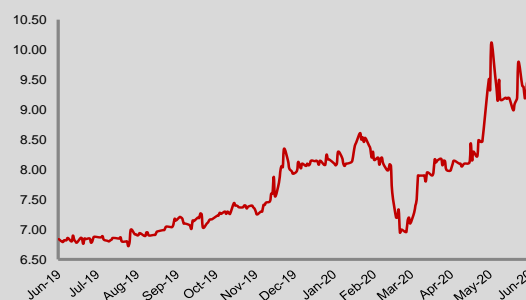
Downgrade to MARKET PERFORM with revised TP of RM9.05 (from RM8.30). Our valuation is based on a higher 54.0x FY21E PER (from 50.0x initially), closely in-line with the stock's +1.0SD over its 3-year mean PER). While valuation appears rich at this level, we believe it is justified, premised on its resiliency, added liquidity from the bonus issue and rosy earnings growth expectations of c.13-10%. Nonetheless, the recent share price rally may have priced in the foresaid merits, limiting its near-term upside potential. **Risk to our call includes better/worse-than-expected MPM sales.**

MARKET PERFORM ↓

Price/Ex-Price : RM9.50/RM6.33

Target Price/ Ex-TP : RM9.05/RM6.03 ↑

Share Price Performance



KLCI	1,494.43
YTD KLCI chg	-5.9%
YTD stock price chg	16.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	QLG MK Equity
Market Cap (RM m)	15,413.2
Shares Outstanding	1,622.4
52-week range (H)	10.20
52-week range (L)	6.50
3-mth avg daily vol	1,413,816
Free Float	35%
Beta	0.6

Major Shareholders

CBG (L) Pte Ltd	41.0%
Farsathy Holdings Sdn Bhd	11.8%
Employees Provident Fund	7.4%

Summary Earnings Table

FY Mar (RM m)	2020A	2021E	2022E
Turnover	4,152.8	4,701.3	5,048.0
EBIT	352.8	397.7	431.2
PBT	306.9	348.6	380.3
Net Profit	239.3	271.8	296.5
Consensus	248.9	278.4	309.8
Earnings Revision	-	1.2%	New
EPS (sen)	14.8	16.8	18.3
EPS growth (%)	10.4%	13.6%	9.1%
NDPS (sen)	4.5	5.5	6.0
BVPS (RM)	1.2	1.4	1.5
Core PER (x)	64.4	56.7	52.0
Price/Bv (x)	7.6	7.0	6.4
Net Gearing (x)	0.5	0.5	0.4
Net Div. Yield (%)	0.5%	0.6%	0.6%



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Results Highlights

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YTD
FYE Mar (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Turnover	979.4	1,107.3	-11.6%	903.8	8.4%	4,152.8	3,619.1	14.7%
EBITDA	121.8	149.6	-18.6%	111.5	9.2%	528.4	472.5	11.8%
PBT/(LBT)	62.8	97.7	-35.7%	61.2	2.7%	306.9	272.4	12.7%
Taxation	-18.0	-22.7	20.5%	-16.2	-11.4%	-68.0	-46.9	-45.0%
Net Profit	43.0	76.1	-43.6%	43.3	-0.7%	239.3	216.8	10.4%
EPS (sen)	2.6	4.7		2.7		14.8	13.4	
EBITDA margin	12.4%	13.5%		12.3%		12.7%	13.1%	
PBT margin	6.4%	8.8%		6.8%		7.4%	7.5%	
Net margin	4.4%	6.9%		4.8%		5.8%	6.0%	
Effective tax rate	28.7%	23.2%		26.4%		22.1%	17.2%	

Source: Company, Kenanga Research

Segmental Highlights

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YTD
Revenue (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Marine Products Manufacturing	274.5	288.9	-5.0%	242.5	13.2%	1163.7	1005.9	15.7%
Palm Oil Activities	68.3	68.5	-0.4%	77.9	-12.3%	255.9	303.1	-15.6%
Integrated Livestock Farming	636.6	749.9	-15.1%	583.3	9.1%	2733.2	2309.9	18.3%
Total	979.4	1107.3	-11.6%	903.7	8.4%	4152.8	3619.0	14.8%
Profit Before Tax (RM m)								
Marine Products Manufacturing	41.5	53.7	-22.8%	34.5	20.3%	195.5	156.2	25.2%
Palm Oil Activities	3.3	3.2	5.5%	10.5	-68.2%	8.3	20.4	-59.2%
Integrated Livestock Farming	18.0	40.8	-55.9%	16.2	10.9%	103.1	95.7	7.7%
Total	62.8	97.7	-35.7%	61.2	2.6%	306.9	272.3	12.7%
PBT margin								
Marine Products Manufacturing	15.1%	18.6%		14.2%		16.8%	15.5%	
Palm Oil Activities	4.9%	4.6%		13.5%		3.3%	6.7%	
Integrated Livestock Farming	2.8%	5.4%		2.8%		3.8%	4.1%	
Total	6.4%	8.8%		6.8%		7.4%	7.5%	

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)		Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.			
F&B AND RETAIL																		
7-ELEVEN MALAYSIA HOLDINGS BHD	1.31	1,506.7	N	12/2020	4.6%	3.4%	3.7%	7.0%	29.9	28.8	26.9	15.8	16.7	56.5%	3.8%	1.30	MP	
AEON CO (M) BHD	1.01	1,418.0	Y	12/2020	-5.8%	-0.6%	-43.1%	28.5%	13.0	22.8	17.7	0.8	0.8	3.7%	4.0%	1.00	UP	
AMWAY MALAYSIA HOLDINGS BHD	5.05	830.1	Y	12/2019	-1.0%	2.0%	-12.5%	16.5%	16.2	18.5	15.9	3.7	3.7	20.1%	5.4%	5.10	MP	
DUTCH LADY MILK INDUSTRIES BHD	42.90	2,745.6	Y	12/2020	-3.0%	5.0%	-14.2%	13.2%	26.7	31.1	27.4	19.0	15.1	54.2%	1.9%	37.55	UP	
FRASER & NEAVE HOLDINGS BHD	32.06	11,758.9	Y	09/2020	0.6%	2.2%	-3.4%	9.1%	28.0	29.0	26.6	4.6	4.3	15.5%	1.9%	36.20	OP	
HAI-O ENTERPRISE BHD	1.86	539.9	N	04/2021	2.3%	2.3%	9.9%	6.5%	16.8	15.3	14.3	1.7	1.7	11.3%	4.3%	1.20	UP	
MYNEWS HOLDINGS BHD	0.700	477.5	N	10/2020	-14.7%	11.2%	-81.0%	256.9%	17.8	93.6	26.2	1.6	1.6	1.7%	1.4%	0.480	UP	
NESTLE (MALAYSIA) BHD	138.80	32,548.6	Y	12/2020	-2.2%	1.9%	-4.4%	5.8%	49.9	52.2	49.4	48.5	47.6	92.0%	1.9%	122.30	UP	
PADINI HOLDINGS BHD	2.47	1,625.0	Y	06/2020	-6.6%	4.7%	-15.8%	10.3%	10.4	12.3	11.2	2.2	2.0	17.2%	4.7%	2.65	MP	
POWER ROOT BHD	2.23	923.5	Y	03/2021	-1.4%	14.1%	-5.8%	11.3%	17.0	18.0	16.2	3.6	3.3	19.2%	5.2%	2.45	MP	
QL RESOURCES BHD	9.50	15,413.2	Y	03/2021	13.2%	7.4%	13.6%	9.1%	64.4	56.7	52.0	7.4	6.8	12.4%	0.6%	9.05	MP	
SPRITZER BHD	2.08	436.7	Y	12/2020	-2.4%	5.0%	-11.2%	16.6%	14.0	15.8	13.5	1.1	1.0	6.6%	1.9%	2.10	MP	
Simple Average					-1.4%	4.9%	-13.7%	32.6%	25.3	32.8	24.8	9.2	8.7	25.9%	3.1%			
SIN																		
BRITISH AMERICAN TOBACCO (M) BHD	10.92	3,118.0	N	12/2020	-24.6%	-1.9%	-38.8%	-0.1%	8.6	14.1	14.1	7.2	7.1	51.0%	6.9%	10.05	UP	
CARLSBERG BREWERY MALAYSIA BHD	25.06	7,662.0	N	12/2020	-28.3%	35.0%	-29.5%	36.0%	26.5	37.6	27.7	46.4	28.9	98.1%	1.4%	21.00	UP	
HEINEKEN MALAYSIA BHD	22.50	6,797.2	N	12/2020	-28.7%	16.1%	-19.8%	13.9%	21.7	27.1	23.8	19.0	19.3	68.8%	3.7%	20.85	UP	
Simple Average					-27.2%	16.4%	-29.4%	16.6%	19.0	26.3	21.9	24.2	18.5	72.6%	4.0%			

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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Published and printed by:

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